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SUBJECT: (C-AL8-02662) JAPANESE OFFICIALS' VIEWS ON RUSSIA,
ENERGY SECURITY, SAKHALIN I

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[1](#)B. TOKYO 269
[1](#)C. MOSCOW 424

Classified By: CDA JIM ZUMWALT FOR REASONS 1.4 (b), (d)

[1](#)1. (C) SUMMARY: GOJ officials do not perceive a major change in Japan's policy on energy engagement with Russia, which they continue to describe as part of a broader diversification strategy to reduce Japan's dependence on oil and gas from the Middle East while avoiding over-reliance on Russian energy (refs A,B). GOJ officials view the delay in the Sakhalin I project as a normal business dispute brought on by a decrease in oil prices and disagreement over where to market production from that field. END SUMMARY.

[1](#)2. (C) Japan remains keen to import energy resources from Russia and support the integration of the Russian Far East into the Asia-Pacific region. However several obstacles, including the global economic slowdown and the enormous cost of constructing the infrastructure needed to extract and distribute resources from the Russian Far East, continue to limit Japanese investment in the region, according to Ministry of Foreign Affairs (MOFA) Russia Office Director Kotaro Otsuki. Otsuki does not expect Russian Prime Minister Putin to call for any specific new investment in Russian oil and gas projects when he meets Prime Minister Aso in May and, at this stage, it is not clear whether Aso's meeting with Putin would yield more oil and gas cooperation than Aso's meeting with Russian President Medvedev in February, Otsuki added. (COMMENT: One energy-related item that may make the agenda for Putin's visit in May is the signing of a civilian nuclear cooperation agreement, according to Interfax reports quoted in the Japanese press. Post will report on this septel. END COMMENT).

[1](#)3. (C) The basic thrust of Japan's energy engagement with Russia is a resource diversification strategy intended to reduce dependence on the Middle East, which supplies 90 percent of Japan's crude oil imports. While Japan does not have specific leverage over Russia, Otsuki said any efforts Russia would conceivably take that undermine its energy relationship with Japan would ultimately not be in Russia's own interests. Should Russia's share of Japan's oil and gas supply exceed ten percent, Otsuki said, concern in Japan about becoming overly dependent on Russia may rise. To date, however, Otsuki noted exports from the Sakhalin fields amount to approximately three percent of Japan's total crude oil imports (based on 2007 figures), and shipments of LNG from Sakhalin II will equal around 7.3 percent of Japan's annual import volume. (NOTE: By comparison, 65 percent of LNG exports from Sakhalin II are bound for Japan. END NOTE.)

[1](#)4. (C) Energy is just one of several areas in which Russia

has sought increased Japanese investment and economic cooperation, Otsuki noted. Three other areas where Japanese and Russian economic cooperation has been concentrated, include (1) information and communication, (2) transportation and distribution, and (3) cooperation in controls on the poaching of marine resources and environmental conservation. In the communication sector, the Russian side is interested in expanding the Asia-Pacific communication market, Otsuki said, and Japanese firms NTT Communications and KDDI have laid optical cables between Japan and Russia that roughly double the speed of data transmission at a lower cost. Otsuki also said freight transportation between Japan and St. Petersburg via the Trans-Siberian Railway is 10-15 days faster than ship-based transport via the Suez canal. The launch of local production by such firms as Toyota and Isuzu Motors will lead to growing demand for prompt and stable transport of auto parts, and several Japanese firms have entered tie-ups with Russia's railway and related entities to transport goods, Otsuki added.

15. (C) As far as the need for cooperation on resource management, Russian statistics on marine resources exported to Japan indicate a value of roughly \$US112 million in 2007, compared to Japanese import figures amounting to \$US1.02 billion, and according to Otsuki, the gap between the figures indicates the scale of poaching. However, the GOR has also been slow to respond to several projects to promote Japanese-Russian public/private sector cooperation in these areas that Japan first proposed in July 2007. Otsuki attributed the delay in part to a disconnect between central government decision-makers in Moscow and regional

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administrators over which projects to prioritize.

PERSPECTIVES ON SAKHALIN I

16. (C) Japanese officials, in discussions with emboffs on the status of the Sakhalin I project, continue to view the Russian government's refusal to approve plans for further development of the project as a private dispute between the GOR and ExxonMobil that is driven by economics, not nationalism. Some degree of Russian pressure to require sale of gas from the project in Russia rather than to the Chinese market is to be expected, according to Otsuki, and Japan sees no clear evidence at this stage that the GOR is trying to force more control of the project toward Gazprom or Rosneft. (COMMENT: The characterization of the impasse as a normal business dispute echoes MOFA officials' description of the situation to AmEmbassy Moscow in late February (ref. C). END COMMENT.)

17. (C) In a separate discussion, Japan Oil, Gas and Metals Exploration Corporation (JOGMEC) Deputy Director General Hiroshi Kubota, who oversees the JOGMEC's project finance in the Russian Far East, said the disagreement is economically driven in two ways. First, because the price of oil and gas has fallen considerably while development costs have remained fixed, the GOR does not stand to see early gains from the project due to the structure of the Production Sharing Agreement (PSA) with ExxonMobil. As a result, Kubota said, it should come as no surprise that the GOR would review the operational plan for the project with the aim of reducing ExxonMobil's management costs in order to increase revenue from the project. In addition, Kotaro said the dispute over whether to market resources from the project domestically or abroad is due to a contradiction between the PSA, which allows the operator to determine to whom to sell, and Russian law, which gives the Russian government the authority to determine how to market natural resources produced in Russia. Kubota said he could not speculate on any nationalistic motives Gazprom or the Russian government may have regarding governance of the project, but he could not imagine the GOR making an "irrational" move toward nationalizing the project.

(NOTE: the JOGMEC provides loan guarantees to the Sakhalin Oil and Gas Development Co. (SODECO), a consortium between the Ministry of Economy, Trade and Industry (METI) and Japanese trading companies Itochu and Marubeni that holds a 30 percent stake in Sakhalin I. END NOTE).

18. (C) In a brief conversation on the sidelines of an oil and gas industry event, METI's Agency for Natural Resources and Energy Director General for Natural Resources and Fuel, Shinsuke Kitagawa, echoed this view, describing the Sakhalin I dispute to emboffs as "Exxon's disagreement", and he suggested it is essentially a private business dispute with the GOR that Japan hopes to see resolved soon.

19. (C) COMMENT: Japanese officials' perspectives differ from occasional media reports on the subject, such as a March 8 article in the conservative Sankei newspaper warning that the Russian government's refusal to approve an operating budget for the Sakhalin I project is a move driven by resource nationalism to seize control of the project similar to the GOR's past insistence that Gazprom obtain a majority stake in the Sakhalin II project. To date, however, GOJ officials have not equated the Sakhalin I negotiations with the GOR's approach to Sakhalin II.
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